

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission)	
)	
vs)	ICC Docket No. 06-0027
)	
Illinois Bell Telephone Company)	
)	
Investigation of specified tariffs declaring)	
Certain services to be competitive)	
Telecommunications services.)	

Attorney General Offer of Proof

AG Cross Ex. 23
Staff Response to AG Request 3.8

IAG Request No. 3.8

On page 7, lines 129-130, Staff Ex. 9.0, Dr. Zolnierrek says: "The Commission should consider that holding prices at non-competitive levels has costs, and that while these costs may not be as immediately apparent as the benefits of providing customers service below competitive rates in the short run, they can nonetheless exceed these benefits for consumers in the long run." In connection with this statement:

A. In reference to this statement, please state whether Dr. Zolnierrek understands non-competitive price levels to be higher or lower than the current prices for measured use customers?

B. Please identify and describe the costs and benefits that Dr. Zolnierrek believes result from holding prices at non-competitive levels. Specify who or what group, entity, company or segment of society will incur these costs and receive the benefits in the *short* run and state what period of time is considered the "short run".

C. Please identify and describe the costs and benefits that Dr. Zolnierrek believes result from holding prices at non-competitive levels. Specify who or what group, entity, company or segment of society will incur these costs and receive the benefits in the *long* run and state what period of time is considered the "long run".

D. Has Dr. Zolnierrek conducted or reviewed any studies on the short and/or long term costs and benefits referred to in the statement quoted above? If so, please provide each and every such study conducted or reviewed.

RESPONSE:

A. Objection, vague. Without waiving said objection, prices defined as non-competitive, by definition, can be either above the competitive price or below the competitive price.

B. Objection, this request calls for a narrative response, if not a treatise, and it therefore inappropriate as a data request. Without waiving said objection, Dr. Zolnierrek had no precise time period in mind when referring to the "short run" and the "long run." As a general matter Dr. Zolnierrek, when referring to these concepts, intended to differentiate the short run from the long run based upon how long it might take firms and/or consumers to take and/or complete certain actions. For example, the short run would, in one context, be the period of time in which the flow of resources

available to produce goods and services in an industry segment is relatively fixed, while the long run would be the period of time in which the flow of resources available could be altered through, for example, successful completion of an innovation cycle. With respect to the costs and benefits associated with the imposition, through regulation, of non-competitive pricing versus the establishment of competitive prices through markets functioning free of regulatory constraints, Dr. Zolnierrek notes that identifying, qualifying and quantifying these measures has, as a general matter, been the subject of a wide body of economics literature for many years. Thus, a full and detailed chronicling of every potential cost or benefit associated with holding prices at non-competitive levels in a general market would be unduly onerous to produce in response to this query. However, by way of one example, Dr. Zolnierrek notes that holding a price at a level other than the competitive level can result in too much or too little of the good or service in question being produced from a social perspective. Over longer time periods, in which firms have more flexibility to take and complete actions, the impact of requiring prices to be set at non-competitive levels can increase.

C. See the response to Question 3.8.B.

D. As noted above, and subject to Staff's objection to Request 3.8.B, the costs (and benefits) associated with failing to allow markets to function have been the subject of a wide body of economics literature for many years. Dr. Zolnierrek has examined certain of these general considerations (see, for example, Dr. Zolnierrek's attached dissertation) in his own research. Furthermore, while Dr. Zolnierrek has not reviewed every piece of work within this body of literature, he has reviewed an extensive body that would be impossible to reproduce in response to this query. With respect to the specific costs and benefits associated with holding prices for AT&T Illinois retail residential telephone service in Illinois MSA 1 above or below costs, Dr. Zolnierrek has not conducted or reviewed any specific studies that would provide a complete quantification of the specific costs and/or benefits from such actions. Furthermore, such studies would, in many respects, be highly speculative. For example, it is difficult to predict what innovation might occur if prices were to become more closely aligned with competitive prices, let alone how much such innovation might improve the general well-being of individual consumers.

Prepared by Dr. James Zolnierrek

Staff Response
IAG Data Requests 3.1 through 3.8
ICC Docket No. 06-0027